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A New European Card: the Pan-European Project 'Monnet' for a European Card Solution

Pricing of Consumer Loans on Electronic Lending Marketplaces – (Comm-)Unity is Strength?

IT Value Creation in Bank Processes

Inauguration of the newly constructed House of Finance of Goethe University Frankfurt am Main

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FINANZ_IT	IBM	SIEMENS	T-Systems		
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JOHANN WOLFGANG GOETHE UNIVERSITÄT FRANKFURT AM MAIN

TECHNISCHE UNIVERSITÄT DARMSTADT

Conference "The Industrial Organisation of Securities Markets"

In June, the CFS, Deutsche Börse AG, and the E-Finance Lab (cluster 5) hosted the international research conference "The Industrial Organisation of Securities Markets". This very successful conference was opened by Dr. Reto Francioni, CEO of Deutsche Börse AG, and featured top-class researchers from the US, Asia and Europe. The presentations and discussions shed light on all aspects of the industrial organization of securities markets, including clearing and settlement services for both cash and derivative markets.

Although the conference was set up as an academic conference, nearly 40% of the participants were practitioners.

Impressum

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Editorial

A New European Card: the Pan-European Project 'Monnet' for a European Card Solution

In his recent talk at the opening of Goethe University's 'House of Finance' Federal Minister of Finance Peer Steinbrück pointed out, that it is a crucial success factor for 'Finanzplatz Frankfurt' to keep the autonomy for rules and definitions in financial markets in Europe and not to loose this competence to heavyweight oligopolies from outside Europe, such as e.g. MasterCard, VISA et cetera.

Some months ago, on 28th January 2008, the countdown was over and SEPA went live. With Credit Transfer payments in Europe now successfully harmonized to make the Single Euro Payment Area reality, a single market has also emerged for payment cards as well as for ATMs and POS terminals. A market, that covers a larger economy than that of the US. The European banks have invested heavily in the underlying infrastructures for SEPA. We have thus crossed the Rubicon! Besides Credit Transfer and Direct Debit, the SEPA Cards Framework (SCF) is the third pillar of the harmonized European payments market. But SEPA is also a disruptive force bringing in new players, new (infra-) structures, and new opportunities.

To cite Dr. Gertrude Tumpel-Gugerell speaking at the SEPA Launch Event on 28th January 2008[1]:

"With the SEPA Cards Framework extensive changes await the European cards market. The ECB expects a new European card scheme to emerge, harmonising card payments across Europe. That said, efficient national card schemes should not vanish, leaving the cards market entirely to international card schemes. Let's work together and use the experience of the national schemes to devise a new European card scheme."

And the European banks have listened very carefully. They are aware of their responsibility, and, for instance, leading French and German banks actively launched the project 'Monnet' for a new European card solution, which will be open for other banks from other countries to join. This project received its name from Jean Monnet, the first president of the High Authority of the European Coal and Steel Community (ECSC), which was the foundation for the modern-day European Union.
Key principle of 'Monnet' is to realize the benefits of SEPA regarding cards for the European market based on a high-quality service for customers, in a secure end-to-end payments process. This service should both be attractive for consumers and merchants and also provide a reasonable business model for banks with a fair compensation for investment in infrastructure.
But although 'Monnet' is a name taken from European history, the new European card solution will be leading edge, blending decades of European experience especially with debit cards with state-of-the-art technological capabilities. 'Monnet' requires forward thinking to omit 30 year old legacy coming from the ages of overnight batch processing and to avoid just linking existing solutions at the end of the life cycle, whilst 'IP', 'http', and 'HTLM' changed the world within only one decade.
Also cross-industry knowledge transfer with regard to e.g. concepts of telco roaming, internet routing, RFID, and biometric finger print authorization et cetera will contribute added value and can help to circumvent thinking in traditional national structures.
Discussion of new ideas and the synergy between practical experience and scientific research is essential for innovation. The E-Finance Lab is a great platform to facilitate exchange with the banking industry and cooperation can provide a valuable contribution to the discussion about a New European Card Solution.

Gregor Roth
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Head of Operations & Services

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1) Source: Speech by Gertrude Tumpel-Gugerell, Member of the Executive Board of the ECB. Launch event organized by the European Commission, the European Central Bank, and the European Payments Council, Brussels, January 28th, 2008.

Research Report

Pricing of Consumer Loans on Electronic Lending Marketplaces – (Comm-)Unity is Strength?

PEER-TO-PEER LENDING COMMUNITIES LIKE ZOPA, PROSPER, OR SMAVA ARE ONE OF THE MOST FASCINATING WEB 2.0 APPLICATIONS IN RETAIL BANKING. WE EXAMINE WHETHER THOSE COMMUNITIES ARE ABLE TO TAKE OVER THE FUNCTION OF BANKS IN CONSUMER LENDING.

Sven C. Berger
Bernd Skiera
Fabian Gleisner
Mark Wahrenburg

Introduction

Peer-to-peer (P2P) lending marketplaces, often referred to as the eBay for loans, receive a lot of attention lately. Consumers come together in the Internet to loan and borrow money directly from each other, so that banks are no longer part of the process. Disintermediation accomplished?

According to some opinions, P2P lending marketplaces will put serious pressure on banks' traditional consumer lending business, comparable to the reorganization of the retail industry when eBay entered the arena. A recent Gartner study predicts that by 2010, such platforms will grow to control ten percent of the worldwide market for retail lending and financial planning. Yet, all P2P lending marketplaces are comparably small and still need to survive the recent financial turbulences. We examine whether and how those platforms are able to perform core banking functions such as solvency rating and credit pricing. Our results indicate that market prices primarily reflect hard financial information such as borrowers' credit history, but the marketplace is furthermore able to process "soft" information through the repeated interaction of market participants. This allows for the funding of loans for "high risk" borrowers that do not fit in banks' traditional credit rating processes.

The way peer-to-peer lending works

The P2P lending marketplace is a website in the World Wide Web that constitutes the general conditions for person-to-person lending and administrates all current loans. Lending marketplaces differ in the way loans are originated. Some providers mediate between borrowers and lenders themselves, whereas in other marketplaces the loan rates are set in an auction. Borrowers post loan listings, and prospective lenders bid on the interest rates. Due to differing regulatory frameworks, there are numerous providers that operate nationally. Table 1 provides an overview of the three major Anglo-American and German providers and their business models, differing in the interest rate pricing process.

Provider	Prosper Marketplace, Inc.	Zopa Ltd.	Smava GmbH
URL	www.prosper.com	www.zopa.co.uk	www.smava.de
Market	USA	UK, USA, Italy, Japan (planned)	Germany
Members	760,000[a]	200,000[b]	28,000[c]
Cooperating Credit Reporting Agency	Experian plc	Equifax Inc.	Schufa Holding AG
Loan Processing Bank	Wells Fargo, Inc.	The Royal Bank of Scotland plc	biw Bank für Investments und Wertpapiere AG
Maximum Amount	25,000 USD	15,000 GBP	10,000 EUR
Pricing of Loans	Second Price Auction / Determined by BR	Second Price Auction	Determined by BR
Fees	BR initial 1%-3% of LA; LN annual 1% of LA outstanding	BR GBP 94.25 (fixed fee); LN annual 0.5% of LA outstanding	BR initial 1% of LA

[a] As of 2008-06-30; [b] As of 2008-07-07; [c] As of 2008-03-24

Table 1: Major Anglo-American and German P2P credit marketplaces and their business models. BR = Borrower, LN = Lender, LA = Loan Amount

Despite varieties in the business models, transactions on all marketplaces are basically anonymous – participants can only see fictitious "screen names" and the information that is explicitly disclosed in borrowers' loan listings. The idea of making loans to complete strangers may seem somewhat exceptional, but it turns out that online lending communities can do a lot of what banks or credit card companies currently do. Risk is mitigated through identity verification and the provision of credible information of all participants. This includes transaction related information (requested loan amount, interest rate offered), "hard" financial information compiled of classical credit bureau data (e. g. a simplified credit score, an indicator of indebtedness, the number of open credit lines, homeownership), and "soft" descriptive information. Borrowers may describe their background, the purpose of the loan, and even include personal pictures. To add credibility, other market participants can register as "friends" and certify loan listings. During the funding process, potential lenders can pose questions to the credit applicant and discuss the borrower's listing. Often, there is an intensive interaction between the marketplace and a prospective borrower before the number of bids on a loan listing picks up.

When the loan is fully funded, most market places work together with a cooperating transaction bank due to national regulation. In the case of Germany, smava collaborates with closely linked biw Bank für Investments und Wertpapiere AG, which grants the credit to the borrower and directly forfeits to the lender.

Community formation: groups

In addition to personal profiles, borrowers and lenders can form groups. These smaller communities within the marketplace review and assess the creditworthiness of individual members. Groups thus act as financial intermediaries and are potentially beneficial for market participants by diligent screening of borrowers, and by obtaining additional information about borrowers that is not publicly available.

Every market participant can start a group, set membership criteria, and eventually become a group leader. Groups aim to lower the risk of defaults by peer pressure within close communities, therefore enable lending at better rates. Often, groups comprise of borrowers with specific backgrounds ("Army veterans", "Microsoft employees", "Apple users"). Among the most important tasks of the group leader is the screening of borrowers within the group (a voluntary due diligence known as "vetting"). Group leaders also supervise loans repayment within their group and become a first line enforcer in the collection process. In case of default, the group leader may encourage borrowers who are members of the group to repay their loans, including, if necessary, making limited repayments (called "community payments") on behalf of a member who is not able to do so. Some marketplaces offer remuneration for these services to the group leader, but in most cases, group memberships as well as other community usages are not charged to the participants.

Findings from an empirical study

In our study, we observe more than 14,000 transactions on Prosper.com, America's largest people-to-people lending marketplace, from nearly two years (2006/2007) with 87.5 Million USD in loans funded. As shown above, lenders on Prosper can evaluate individual creditworthiness through quantitative as well as qualitative figures. As the two main quantitative figures, an individual rating and an indicator of indebtedness are provided in cooperation with the credit reporting agency Experian. Qualitative information on individual income and loan purpose is mandatory, but its validity is a priori not controlled. Borrowers thereby might have an incentive to overemphasize their "quality".

We see that the average loan amounts and the interest rates (operationalized as the spread above a risk-free rate) vary heavily among the different credit grades. Best credit grades (AA) get an average loan of around 9,000 USD for approx. 250 basis points spread,

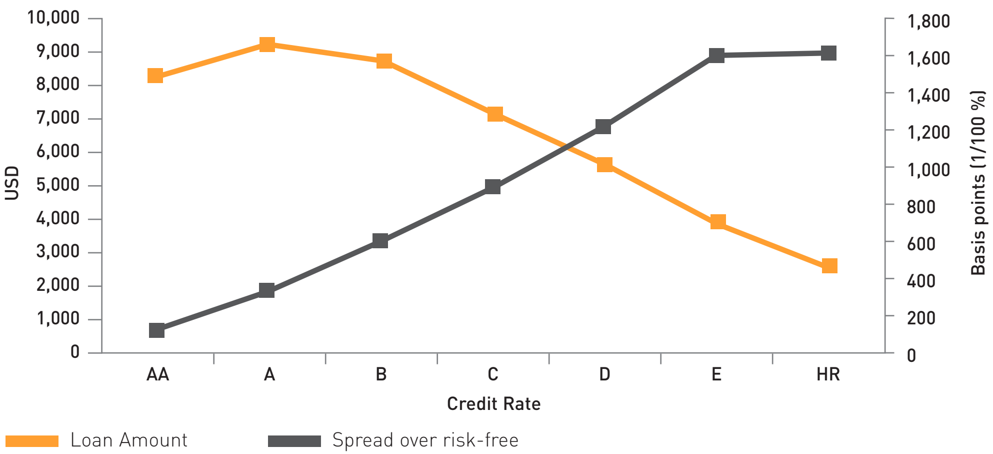

Figure 1: Loan amounts and interest rate (spread above risk-free rate) per credit grade category

where "high-risk" borrowers (credit grade HR) have to pay an average spread of 1,600 basis points for a 500 USD loan.

When studying the determinants of interest rates, we find that traditional credit ratings have the strongest impact on interest rates. Yet, we also find clear empirical evidence that the interaction between market participants has a statistically significant influence on loan prices, and that credible signals of credit quality are highly appreciated by lenders. In particular, the marketplace values the certification by experienced market participants. Moreover, actions speak louder than words: recommendation of loan listings that are backed by investment into those loans significantly lowered the resulting interest rate. In summary, borrower credit history is very important, but personal interaction in the market also makes a big difference.

Conclusion

P2P lending marketplaces and their involved communities perform basic banking functions like rating and pricing of credit applications. In particular, we see strengths and a competitive advantage in assessing "soft" borrower information to a degree impossible in a cost-efficient, standardized mass retail business. Therefore, we will probably see some P2P lending marketplaces grow in specific market segments: the ability to process "soft" information is particularly beneficial e. g. for borrowers with weak access to credit at traditional banks because of a bad credit score. In contrast, the realized interest rates for consumers with good credit ratings are roughly the same as the best rates offered by online banks in Germany.
We would assume that in the long run, the success of P2P lending marketplaces highly depends on the capitalization of their specific competitive advantage.

Research Report

IT Value Creation in Bank Processes

RESULTS FROM EMPIRICAL STUDIES WITH THE 1,500 LARGEST BANKS IN THE US AND THE 1,000 LARGEST BANKS IN GERMANY REVEAL THE MAJOR IT VALUE DRIVERS AND MANAGEMENT ACTIONS TO IMPROVE THESE DRIVERS.

Frank Schlosser
Tim Weitzel
Daniel Beimborn
Wolfgang König

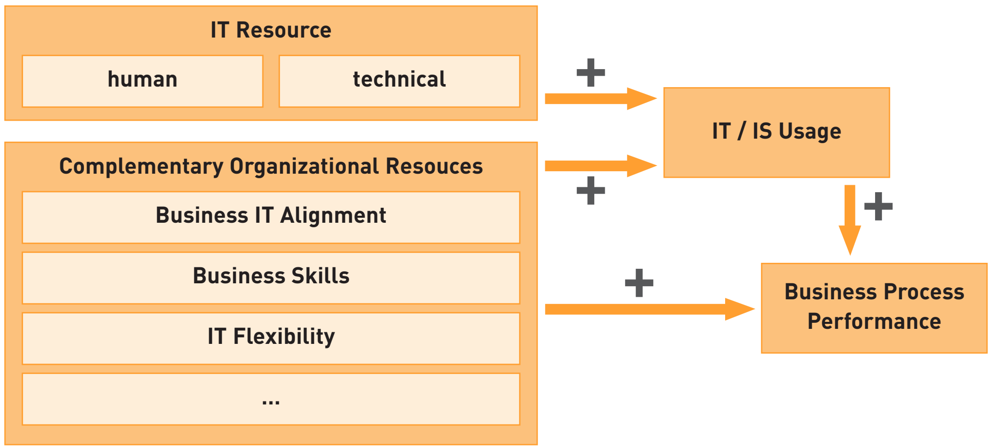

Figure 1: Model of IT value creation in financial business processes

Under which conditions does IT lead to better bank performance?

There has been great discussion on how the application of information technology (IT) creates value. For banks this is a central debate since they heavily rely on IT as it is the primary production factor. Carr argued in his article that IT doesn't matter because it is increasingly standardized and commoditized and therefore cannot serve as a source of competitive advantage against rivals on the market. Consequently, he proposed the following three "New Rules for IT Management": (1) Spend less, (2) Follow, don't lead, and (3) Focus on vulnerabilities, not opportunities (Carr, 2003).

Indeed, the lack of a clear and consistent framework regarding the assessment and measurement of the business value of IT in IT reliant areas such as financial services has been driving our research in cluster 1 from day one. How can banks effectively use IT and achieve and sustain a competitive advantage?

Traditionally, researchers measured the impact of IT investments on productivity on a macroscopic level – partly reasoned because these data were accessible more easily. In such research designs, however, value drivers are likely averaged away so that recent research results of cluster 1 request that examining the effects of IT on the business process level is necessary. Moreover, these results provide insights that IT per se does not lead to superior process performance or a competitive edge. Rather, the process of IT value creation is a complex and indirect network of several factors (see Figure 1). Meanwhile, there is unanimous agreement throughout the literature that – aside of IT resources – the decisive factors are complementary resources like business skills of the employees, flexibility, the effective use of IT, and good alignment between business and IT and also among the business units (e. g. between front office and back office in a bank). In particular, business IT alignment consistently shows to be a main driver of process performance and the number 1 top management concern over the last decade (Luftman et al., 2006).

Data and methodology

Based on an empirical survey "Business IT Alignment" among the 1,500 largest US banks we investigate the importance of the different IT value drivers derived from current research and insights from practice, and present some management actions which are expected to help develop IT in a way it can provide a measurable add-on business value. The unit of analysis is the process of granting credits to small and medium sized enterprises *(SME credit process)*. Our survey is based on case studies as well as prior empirical studies in cluster 1 among German banks. We received 149 questionnaires filled out by the SME credit process managers. Besides general questions on the SME credit process we asked for example for process performance, competitive advantage, business and IT skills of the employees, IT and business process outsourcing, information system (IS) usage, business internal alignment, IT flexibility, and business IT alignment.

In our analysis, we primarily focus on measures dealing with financial process performance, competitiveness, and those measures influencing these two success variables. The goal is to disclose the effect of the different factors on success, i.e. to reveal differences between high and low performing banks. Further, we identify actions which promise to improve the success factors in general and alignment in particular which in turn enhance financial business process performance and competitiveness. The basic question thus is what the major drivers of IT business value in banks are and how they conjointly generate this value.

IT value creation in banks

There is evidence that IT by itself can merely create considerable benefits rather than it should be regarded as a firm resource that unfolds its impact together with other resources within a business process.

The IT resource consists of technical and non-technical elements. While the technical part comprises issues like IT architecture (e. g. organization-wide used services) and the deployed applications (e. g. the customer relationship management tool or the billing tool), the human IT resource addresses the technical capabilities and the management skills of the IT personnel. Interestingly, studies have shown that the technical knowledge, i.e. how good the coders are in programming, helps to achieve a competitive advantage in the short-term, but for sustaining this advantage over time management skills of IT staff, i.e. being able to effectively manage projects, are needed (Bharadwaj, 2000).

However, both parts of the IT resource have to be deployed within the processes and moreover be aligned with the business resources and processes. This interplay between business units and IT unit is addressed by business IT alignment. Its roots lie in the organizational premise that firm success is a result of the mutual fit between two or more factors like strategy, structure, technology, culture, and environment. Accordingly, similar terms like harmony, synergy, or linkage can be found to describe this collaboration. They all share the insight that an integration of business strategy and IT will lead to success and facilitate the "right" usage of IT within a bank's processes. From a traditional point of view, this integration is about strategic business IT alignment which calls for bringing strategies, goals, and needs between business and IT in line. Thus, it strives for consistency regarding strategy content and also in terms of the employees who are in charge of developing the plans. Moreover, it is helpful to develop business and IT plans in a two-way interaction, with common goals and an identical planning horizon.

On top of that, recent research has identified alignment on the operational level to be important (e. g. Wagner, 2007). The reason is that strategies can only be effective and successful when they are implemented in daily business. Operational business IT alignment thus is addressed by the three dimensions *communication, shared domain knowledge, and cognitive linkage,* which are empirically shown to be key value drivers and are expected to be highly interrelated. Operational alignment is concerned with mutual trust and commitment of business units and the IT unit which arise, among others, from frequent and regular communication and interaction. Mutual understanding of goals, plans, and approaches are particularly emphasized.

The positive effect of alignment has been shown in several empirical studies. For example, strategic business IT alignment is positively related to the effectiveness of IT, IS usage, and firm success (Chan et al., 1997).

Revealing differences between high and low performing banks

Our current study confirms that successful banks, in terms of business process performance and competitive advantage, are characterized by both strong strategic and operational alignment. Besides this general interrelationship of alignment and success, a more detailed investigation shows an indirect impact of operational alignment on success by significantly enhancing IS usage. In other words: Better operational alignment leads to much higher usage of core credit application systems by bank employees in the front and back office and in turn to better cycle times, process costs, and quality.

So what about an observable IT business value? Banks with good alignment, accompanied by high performance levels regarding the other factors like IT and business skills of the employees, business internal alignment, or flexibility, regularly achieve high returns from their IT, while those banks which perform worse in alignment in general fail to derive business value from their IT.

Implications for practice

Having noticed that several factors, including alignment, are crucial for financial process quality and competitiveness, the question is how to manage these firm resources in order to push them into the right direction. Regarding alignment, this is subject of many studies, but yet severely under-researched. However, there are some auspicious starting points but no silver bullet or some kind of check list providing a complete set of guidelines on what to do.

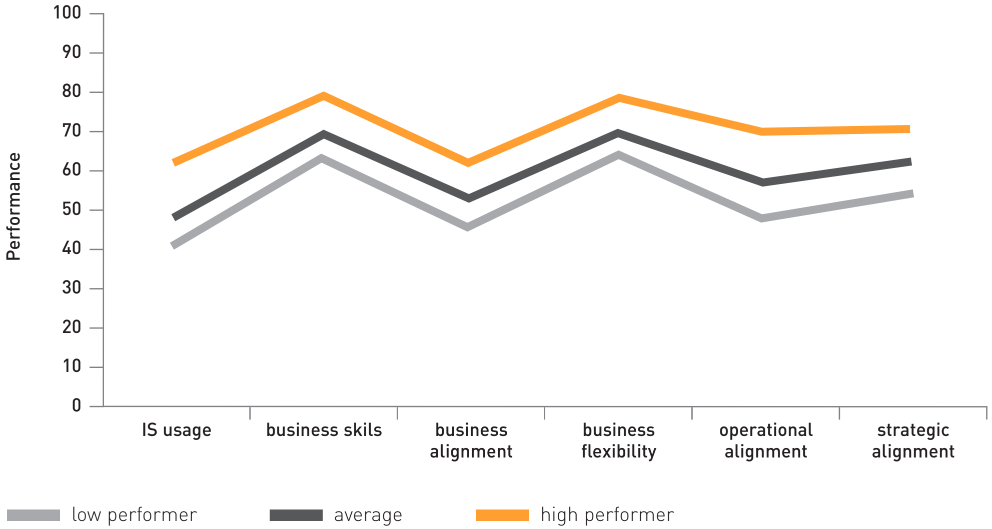

Figure 2: Performance levels of high vs. low perfomers (US banks)

One important aspect of alignment is shared domain knowledge, i.e. the mutual knowledge of IT and business employees on the other side, respectively. Within this, in particular there is a need for a profound business knowledge of the IT employees, so that they are able to interpret the problems of their customers and develop appropriate solutions instead of application systems with too less, too many, or bad functionalities. The IT should work business oriented. Furthermore, mutual trust and respect between business and IT serve as a valuable precondition of good alignment. All this is most likely to happen when there is regular and effective communication between the different units. As a result, a mutual business understanding may arise. Our study shows that those banks being superior regarding process performance (high performers) are better than their competitors indicating a lower performance level (low performers) with respect to the presented resources (see Figure 2).

From IT to value: Which actions are necessary?

First, regarding alignment as the single most important enabler of IT business value, there is a considerable set of promising actions to drive the different dimensions of alignment. From a strategic point of view, business and IT strategy should be aligned and documented by a close collaboration of both sides in the strategy development process. Then, these strategies need to be articulated and made transparent within the firm. Also, top management support for IT and a sufficient representation of IT in the board are of high importance. Only when business executives acknowledge the relevance of IT and actively support the interplay between business and IT, IT will be in a position to effectively support the business.

Considering operational alignment, there is also a number of tools that can be used to enhance collaboration between business units and IT unit. Among the most important are regular cross-departmental meetings on varying issues like process improvements or application system changes. Furthermore it turned out to be useful when the business and IT sides regularly consult each other. Some banks have already implemented a specific unit or function (liaison unit) to establish organizational routines for challenging and fostering cross-departmental knowledge exchange. Those banks, on average, show better alignment. Another important issue are trainings where employees from both sides participate or, even better, when such trainings are organized by the business units for the IT unit, and vice versa. This helps, among others, to develop a common understanding of each other's problems and demands. Of course, banks can also try to improve communication and collaboration by rewarding incentives in case of good communication between business and IT.

However, the success of all these mechanisms heavily depends on the people who are involved. Hence, banks should both try to hire heterogeneity, i.e. employees with mixed career background (people who have already worked in business and IT) and correspondingly train their staff towards close collaboration and shared knowledge by special trainings, workshops, and job rotations. This will bring an understanding of how the different process parts are interlinked.

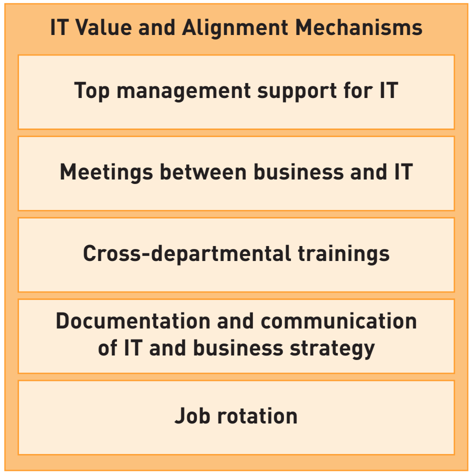

Figure 3: Mechanismus to improve IT value creation and business IT alignment.

Conclusion

Our current study shows that to create business value out of IT banks need to address not only a single resource like the technical part of IT or the business competencies rather than trying to build capabilities which comprise all relevant resources in order to improve their business process performance. One major enabler for IT value creation is business IT alignment, describing the interplay of IT and other organizational resources.

Still, there are interesting facets to further analyze. In the next steps of our analysis we will conduct country comparisons between German and US banks. Also, we will investigate how effective the concrete management actions are in enhancing the business value of IT and business IT alignment, and which performance levels the banks actually show regarding the application of these actions. This evaluation can then serve as a basis for benchmarking individual banks against the average of the whole sample or different sub-groups.

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Inauguration of the newly constructed House of Finance of Goethe University Frankfurt am Main

Prof. Eric Maskin

Prime Minister Roland Koch hands over the keys of the House of Finance to President Prof. Rudolf Steinberg

On May 30th, 2008, more than 500 participants – among them the Prime Minister of Hesse, Roland Koch (who also acts as Honorary member of the Council of the E-Finance Lab), the Federal Minister of Finance, Peer Steinbrück, and the CEOs of major German banks – attended an impressive inaugural meeting of the newly constructed House of Finance* ** located at the Westend campus of Goethe University, Frankfurt am Main. After opening remarks of the President of the Goethe University, Prof. Rudolf Steinberg, and the Chairman of the Council of the House of Finance, Prof. Otmar Issing, Prime Minister Roland Koch and the City Treasurer of Frankfurt, Uwe Becker, greeted the participants. Then Federal Minister Peer Steinbrück, the President of the Deutsche Bundesbank, Prof. Axel Weber, and – following a temperamental introduction by Friedrich von Metzler – James D. Wolfensohn, the former President of the World Bank, addressed the audience.

(first row – from left to right) Dr. Josef Ackermann, Dr. Rolf-E. Breuer, Wolfgang Kirsch, Dr. h. c. Klaus-Peter Müller

On June 5th and 6th, 2008, 350 participants gathered for an excellent academic inauguration of the House of Finance. The conference comprised four sessions: Law and Finance, Management Science and Finance, Macroeconomics and Finance, and Graduate, Post-Graduate, and Executive Education. The E-Finance Lab was responsible for the session Management Science and Finance. There, the presentation sequence started with Prof. Andreas Hackethal, Co-Director of Cluster 4, on "Perspectives on the Future of Private Finance", followed by Herman-Josef Lamberti, Member of the Board of Deutsche Bank, who analyzed "Dislocations of Capital Markets – new Impulses for Research and Technology" (Hermann-Josef Lamberti also acts as member of the Board of the E-Finance Lab). Finally, the Nobel Price laureate 2007 in economics, Prof. Eric Maskin, presented on "Mechanism Design: How to Implement Social Goals".

Prof. Dr. Wolfgang König

Hermann-Josef Lamberti presenting

* The E-Finance Lab will presumably move into the newly constructed House of Finance by End of August, 2008.

** The House of Finance comprises 25 professorships in the areas of finance, money and macroeconomics, and corporate and financial law, plus five research institutes (the E-Finance Lab being the largest research unit) and two advanced education units. All in all, 180 researchers work in the House of Finance.

*** all photos: Goethe University Frankfurt / Uwe Dettmar

Infopool

News

Prof. Dr. Wolfgang Koenig Executive Director of the House of Finance

On July 1st, 2008, Prof. Dr. Wolfgang Koenig, Chairman of the Board of the E-Finance Lab and head of cluster 1 (left), was appointed Executive Director of the House of Finance, succeeding the retiring Prof. Dr. Bernd Spahn. Subject to respective decisions of the Board, it is planned that starting April 1st, 2009, Prof. Koenig will share the duties as Chairman of the Board of the E-Finance Lab with Prof. Dr. Peter Gomber (who heads cluster 5) (right) after completion of his research semester abroad.

Member of E-Finance Lab wins "McKinsey Marketing & Sales Award"

Tanja Stepanchuk (Ph.D. student of cluster 3) won the "McKinsey Marketing & Sales Award" for her work on "Compensation in B2B Search Engine Marketing". McKinsey recognizes the high academic achievements with decision making in industries such as, among others, the financial service industry.

Two endowed Junior Professorships of the E-Finance Lab

Since April 1st, 2008, Prof. Dr. Jan Muntermann holds the E-Finance Lab endowed Junior Professorship in Business Administration, especially E-Finance and Securities Trading, at Goethe University, Frankfurt am Main. His research interests include decision support systems, design science, and IT valuation, especially in the fields of E-Finance and Mobile Business.

Also since April 1st, 2008, Prof. Dr. Roman Beck holds the E-Finance Lab endowed Junior Professorship in Business Administration, especially E-Finance and Services Science, at Goethe University, Frankfurt am Main. He heads the BMBF-funded research project Financial Business Grids as well as the research project on IT project risk management within the E-Finance Lab. Roman publishes on a wide array of topics in the fields of Grid and IT services, IT project management, as well as IT standards.

The E-Finance Lab Fall Conference 2008 "Herausforderungen neuer Geschäftsmodelle und Technologien – Governance und Banksteuerung im Zeitalter virtueller und global verteilter Unternehmen" will be held on **Sept. 15th, 2008** at the congress center Darmstadtium, Darmstadt, commencing 12.00 o' clock.
For further information and registration see **www.efinancelab.com**.

Selected E-Finance Lab publications

Berger, S.; Hinz, O.:
The Impact of Social Networks on Interorganizational Effectiveness – The Case of IPO Deal Networks. In: 16th European Conference on Information Systems (ECIS). Galway, Ireland, 2008.

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Research outside the E-Finance Lab

RESEARCH PAPER: DOES ALGORITHMIC TRADING IMPROVE LIQUIDITY?

Building upon the observation that both algorithmic trading (AT) and equity market liquidity have increased / improved over the past decade, Hendershott, Jones and Menkveld examine whether or not a relationship between the two exists. The authors define AT as "the use of computer algorithms to manage the trading process" and use a normalized measure of electronic message traffic (i.e. order submissions, cancellations, trade reports) as a proxy for algorithmic liquidity supply. Based on within-stock variation, they find that algorithmic trading and liquidity are positively related. In order to sort out causality, the authors further examine a market structure change at the New York Stock Exchange (NYSE), i.e. the start of autoquoting, as an exogenous instrument for AT. For large-cap stocks in particular, quoted and effective spreads narrow under autoquote and adverse selection declines, indicating that AT does causally improve liquidity.

Hendershott, Terrence; Jones, Charles M.; Menkveld, Albert J.
In: EFL, CFS & DBAG Research Conference "The industrial organisation of securities markets: competition, liquidity and network externalities"

RESEARCH PAPER: CONSUMER PERCEPTIONS OF BRAND ARCHITECTURE IN FINANCIAL SERVICES

Heterogeneity of target segments, price differentiation, and company acquisitions encourage financial services providers to operate under different brands. Consumers' attitude and perception of those brand families were analyzed to provide insights to the under-researched consumer perspective on brand architecture. Results of the study imply, when having separate brands in the portfolio in order to maintain relationships with different customer franchises, managers must ensure that the case for maintaining these separate brands is proven, i.e. that rationalization of the brand portfolio would weaken relationships. This is essential, as supporting more brands is almost always more costly and therefore benefits must accrue to justify such additional expenditure.

Devlin, James F.; McKechnie, Sally
In: European Journal of Marketing 42 (2008) 5/6, pp. 654-666.

Electronic newsletter

The E-Finance Lab conducts two kinds of newsletters which both appear quarterly so that each six weeks the audience is supplied by new research results and information about research in progress. The focus of the printed newsletter is the description of two research results on a managerial level – complemented by an editorial, an interview, and some short news. For subscription, please send an e-mail to eflquarterly@efinancelab.com or mail your business card with the note "please printed newsletter" to

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